

Business Report

(From January 1, 2019 to December 31, 2019)

1. Business Review of Trend Micro Group

(1) Qualitative Information on the Consolidated Business Results

During this term of fiscal year 2019, from January 1 to December 31, the world economy has been going through with various risks; trade frictions between mainly U.S.-China, the impact of Brexit uncertainty, emerging countries economic slowdown concern, and rising protests in Asia and geopolitical risks in Middle East, etc.

Though Japan economy has been on a moderate recovery trend continuously except showing weakness in as exports and manufacturers, etc., it is still going through over concerns risks mentioned above world economic including trade friction, the uncertainty of foreign economic situation, financial and capital markets fluctuations, geopolitical risks, etc.

In the worldwide Information Technology industry, corporates' interests in new fields including IoT (Internet of Things) and AI (Artificial Intelligence), etc. have been leading IT spending. In addition, new 5G networks will start to appear soon. It seems to be expected increase more demand for cloud computing including server virtualization and related services from both home and abroad in IT industry market. According to another report, worldwide IT spending will be estimated to reach into \$3.9 trillion by the end of 2020.

In the cyber security industry, the General Data Protection Regulation (GDPR) has been in effect at last year. On the other hand, multitude of cyber terrorism that targets specific national institutions, etc., a spate of identity theft in business classified information, and targeted attacks including cryptocurrency drain in specific companies, organizations have been still coming across occasionally. Moreover, there was a domestic issued has revealed that a job-hunting site to provide a wide range of employment information and services to registered users had sold job-seeker-data without the clients' consent. After such a recent high-visibility incident, it has been required showing more rigorous approach to information management to the collection-side or between nations in classified information. Such a new various threats as like ransomware, targeted to cryptocurrencies, IoT devices and environment, and unauthorized access in cashless payment, etc. seem to be increasing in more from now on.

Under such environment, our group business conditions are as follows:

With regards to sales in Japan region, consumer business has increased because the sales in mobile channel shop performed well as the same period in the previous year. In Enterprise business, strategic products line especially cloud related business showed large growth. As a result, net sales for this period in Japan region amounted to 66,562 million yen (5.5% increase from the same period in the previous year) increased to.

For North America region, in enterprise business, despite cloud related business showed growth, network security related business for large enterprise has not been performed well this period due to decrease in large deals compare to the same period in the previous year. As the result, sales for this period in North America region was 37,351 million yen (10.1% decrease from the same period in previous year) decreased to.

In Europe region sales, mainly cloud related business showed substantial growth. In addition, traditional products sales were steady-going. As the result, even if there was a big strong yen impact, net sales in this region were 29,033 million yen (2.3% increases from the same period in previous year) in limited increase.

In the Asia Pacific region, strategic products line mainly network security related business and cloud related business showed substantial growth. In addition, traditional products sales were also going well. Middle East area and Taiwan area have led this region sales. As a result, in spite of strong yen impact, net sales for this period in Asia Pacific region amounted to 27,111 million yen (18.0% increase from the same period in the previous year) with showing the highest double-digit growth rate in all region.

In the Latin America region sales, strategic products line including both cloud related business and network security related business showed substantial growth in entire this region. In addition, traditional products sales showed steady going. As the result, in spite of strong yen impact, net sales in this region were 5,135 million yen (16.6% increases from the same period in previous year) with a

double-digit growth rate.

As a result, the consolidated net sales for entire year of fiscal year 2019 amounted to 165,195 million yen (3.0% increase from the same period in previous year.)

Cost of sales and operating expenses totaled 127,509 million yen (2.4% increase from the same period in previous year.) In spite of a decrease caused by stock price fluctuation in virtual share bonus plan, this increase were mainly increase in people costs due to staff up and significant increase in outsource fee to consignee for good sales of consumer business at mobile channel shop, etc. As a result, consolidated operating income for this period was 37,686 million yen (5.2% increase from the same period in previous year) increased to.

Against the forecast of financial results for the fiscal year ending December 31, 2019, which were announced on February 14, 2019, North America region's sales has been dropped significantly more than our lower expectation due to decrease in large deal. On the other hand, enterprise sales in both Asia Pacific region and Latin America region and consumer business sales in Japan region have been better than we expected. In spite of those region's sales could mostly cover to North America region's sales, year-end sales for fiscal year 2019 fell short in meeting our original guidance due partly to strong yen impact over our expectation. On the other hand, cost in decrease than expectation with mainly people costs, operating income has been almost as expected.

The consolidated ordinary income for this period was 39,139 million yen (5.2% increase from the same period in previous year.) Due to increase tax burden for significant decrease in stock option exercise by directors of US subsidiaries, etc., the net income attributable to owners of the parent for this period was 27,946 million yen (1.3% decrease from the same period in previous year) as slight decrease.

Operating income based on Pre-GAAP (revenue before adjusting deferred revenue, etc.) serves as the important annual management indicators for our company. It for this period was 48,329 million yen, an increase of 4,127 million yen (9.3% increase from the same period in previous year.)

This increase was caused by Pre-GAAP growth in excess of cost of sales and operating expenses growth including people costs increase mainly due to prior speculative staff up.

(2) Capital Expenditure

The total amount of capital expenditure for the current period was 4,034 million yen, which was invested mainly in the development of new technologies and acquisition of instruments necessary to rationalize the basic operation systems including servers, PCs and peripheral devices.

(3) Financing

There are no special instances.

(4) Issues to Deal With

In the cyber security industry which our group belongs to, there have been not only existed security venders as our direct competitors, but also new vendors joining by recent M&A or acquisition from other industries and new entries, etc. They have been encouraging market competitions both domestic and overseas. Such a consolidation and new entries are now too fluid to foresee the future direction of this business and their presence in the computer security market will make the competition in the market more intense. In addition, under the facing an age of IoT, the cyber security industry has been constantly being required to make appropriate provision for the safety of both ginormous and significant data and infrastructure, the implementation of AI technology to security, and managed security services to set and operate various right products in the right place, etc. with perceiving alteration in both environment and user behavior.

In response to such intense competition and changes in the market, our group is enhancing our wide range of technologies to better combat the latest web threats, which evolve from day to day, through a number of acquisitions. With those a series of acquisitions and organically grown technology, our group has taken the lead over other competitors in creating cloud based security solution. Our core

technology, SPN provides a wide variety of products and services which achieve cloud computing security with correlation analysis for various threats.

For achieving our vision: A world safe for exchanging digital information, as threat defense experts, our group will advance our multilayered “XGen™ security” approach, a blend of cross-generational proven threat defense techniques including advanced technology as AI, web and mail reputation, behavior monitoring, machine learning, etc.

In addition, we will deploy a new concept “X Detection & Response (Trend Micro XDR)” to resolve ever-changing issues with. Trend Micro XDR is a concept for detection and response across a wide range of plural security layers by crossing (X) organizations. Based on threat intelligence that we have cultivated, it can provide to extend detection and response to offer broader visibility and expert security analytics, leading to more detections and an earlier, faster response.

We can achieve to offer higher value-added security solutions with Trend Micro XDR. At the same time, we will aim to achieve sustainable long-term growth with maintaining a stable financial foundation.

(5) Business Results and Changes in Financial Conditions

Fiscal Year	The 28 th Term ended December 2016	The 29 th Term ended December 2017	The 30 th Term ended December 2018	The 31 st Term ended December 2019
Item				
Net Sales (millions of yen)	131,936	148,811	160,410	165,195
Ordinary Income (millions of yen)	35,138	37,035	37,190	39,139
Net Income Attributable to Owners of Parent (millions of yen)	24,651	25,691	28,314	27,946
Net Income per Share (in yen)	179.63	187.01	204.38	200.94
Total Assets (Note) (millions of yen)	308,537	331,157	346,161	359,710
Net Assets (millions of yen)	166,471	177,077	187,083	187,425

(Note) The company has applied the “Partial Amendments to Accounting Standard for Tax Effect Accounting” (ASBJ Statement No. 28, February 16, 2018) effective from the beginning of the fiscal year ended December 31, 2019. Accordingly, the amount of total assets for the fiscal year ended December 31, 2018, has been retrospectively adjusted using figures that reflect the application of the aforementioned standard, etc.

(6) Status of Important Subsidiaries

Company Name	Capital	Shareholding Ratio	Primary Business
Trend Micro Incorporated (Taiwan)	212,500,000 New Taiwan dollars	100%	Provision of development and other services
Trend Micro Incorporated (U.S.A.)	477,250.67 U.S. dollars	100%	Development and sale of security-related products
Trend Micro Australia Pty. Ltd. (Australia)	150,000 Australian dollars	100%	Development and sale of security-related products
Trend Micro (EMEA) Limited (Ireland)	21,372,061.63 euros	100%	Sale of security- related products

- (Notes) 1. The consolidated financial statements cover all subsidiaries and affiliated companies except two non-consolidated subsidiaries, which consist of 39 consolidated subsidiaries including the aforementioned four important subsidiaries and one equity method affiliate.
2. There are no subsidiaries that fall under specific wholly owned subsidiaries.

(7) Primary Business of the Group

Development and sale of security-related software for computers and the Internet

(8) Primary Offices of the Group

Head Office: Shibuya-ku, Tokyo

Branch Offices: Osaka Office (Yodogawa-ku, Osaka)
Fukuoka Office (Hakata-ku, Fukuoka)
Nagoya Office (Naka-ku, Nagoya)

Overseas Subsidiaries: Trend Micro Incorporated (Taiwan)
Trend Micro Incorporated (U.S.A.)
Trend Micro Australia Pty. Ltd. (Australia)
Trend Micro (EMEA) Limited (Ireland)

(9) Employees

Name of Divisions	Number of Employees
Sales Division	1,813
Marketing Division	354
Product Support Division	1,418
Research and Development Division	2,242
Administration Division	1,027
Total	6,854

2. Status of Shares of the Company**(1) Total Number of Shares Authorized to be Issued by the Company:**

250,000,000 shares

(2) Total Number of Outstanding Shares:

139,147,349 shares (excluding treasury stock of 1,365,655 shares)

(3) Number of Shareholders: 10,509**(4) Top 10 Shareholders:**

Name of Shareholders	Number of Shareholding	Shareholding Ratio (%)
The Master Trust Bank of Japan, Ltd. (Trust Account)	25,606,500	18.40
Japan Trustee Services Bank, Ltd. (Trust Account)	12,969,700	9.32
Chang, Ming-Jang	5,367,000	3.85
Trueway Company Limited	5,232,500	3.76
Credit Suisse AG	4,464,700	3.20
Trust & Custody Services Bank, Ltd. (Securities Investment Trust Account)	3,415,900	2.45
GIC PRIVATE LIMITED-C	3,369,300	2.42
SMBC Nikko Securities Inc.	3,100,000	2.22
Japan Trustee Services Bank, Ltd. (Trust Account 9)	2,413,500	1.73
The Bank of New York Mellon (International) Limited 131800	2,118,200	1.52

- (Notes) 1. Trueway Company Limited, which listed in the Top 10 Shareholders, does not hold any of the Company's shares in the shareholder registry. The above number of shares held is the number of shares held under the name NOMURA SINGAPORE LIMITED CUSTOMER SEGREGATED A / C FJ-1309.
2. The Shareholding Ratio is calculated excluding treasury stock (1,365,655 shares).

3. Matters Concerning Stock Acquisition Rights etc. of the Company

(1) Status of Stock Acquisition Rights held by Directors at the End of the Current Term

	Thirty-third Series	Thirty-fourth Series	Thirty-fifth Series
Date of resolution of the issue	December 22, 2015	September 14, 2016	December 7, 2017
Category	Director (Note)	Director (Note)	Director (Note)
Number of holders	4	3	4
Number of stock acquisition rights	1,078	862	1,200
Number of shares subject to stock acquisition rights	107,800	86,200	120,000
Type of shares subject to stock acquisition rights	Common Stock	Common Stock	Common Stock
Issue price per stock acquisition right	Without consideration	Without consideration	Without consideration
Exercise price per share at the exercise of rights	4,690 yen	3,545 yen	6,430 yen
Exercise period	January 11, 2021	September 29, 2021	December 22, 2022
Conditions for exercise of stock acquisition rights	(Note 2)	(Note 2)	(Note 2)

	Thirty-sixth Series	Thirty-seventh Series
Date of resolution of the issue	December 3, 2018	December 3, 2019
Category	Director (Note)	Director (Note)
Number of holders	3	3
Number of stock acquisition rights	900	900
Number of shares subject to stock acquisition rights	90,000	90,000
Type of shares subject to stock acquisition rights	Common Stock	Common Stock
Issue price per stock acquisition right	Without consideration	Without consideration
Exercise price per share at the exercise of rights	6,280 yen	5,790 yen
Exercise period	December 18, 2023	December 18, 2024
Conditions for exercise of stock acquisition rights	(Note 2)	(Note 3)

(Note) Outside Directors and Corporate Auditors of the Company do not hold stock acquisition rights at the end of the current term.

(Note 2)

Essential Conditions for Exercise of Stock Acquisition Rights

- (a) A holder of stock acquisition rights may exercise his/her stock acquisition rights only if the holder continues to be in a position as a director, auditor, employee, secondee or adviser of the Company or a subsidiary of the Company (hereinafter in this item referred to as the “previous position”) until the time when the holder wants to exercise his/her stock acquisition rights. If a holder of stock acquisition rights loses the previous position, the holder may exercise his/her stock acquisition rights within 45 days from the date on which the holder loses his/her previous position. When a holder of stock acquisition rights loses his/her previous position due to physical disability or other similar cause, the holder may exercise his/her stock acquisition rights within six months from the date on which the holder loses his/her previous position. If the provisions of this paragraph conflict with any compulsory provisions applicable in the country of residence of the holder, this paragraph shall not apply to the extent that such conflict arises.
- (b) When a holder of stock acquisition rights dies, his/her heir may exercise the relevant stock acquisition rights within six months from the date on which the holder died only if the heir completes the procedures for the inheritance of stock acquisition rights as stipulated by the Company. If the provisions of this paragraph conflict with any compulsory provisions applicable in the country of residence of the holder, this paragraph shall not apply to the extent that such conflict arises.
- (c) If stock acquisition rights are pledged or any security interest on the stock acquisition rights is established, the holder of the relevant stock acquisition rights may not exercise the same.

(Note 3)

Essential Conditions for Exercise of Stock Acquisition Rights

- (a) A holder of stock acquisition rights may exercise his/her stock acquisition rights only if the holder continues to be in a position as a director, auditor, employee, secondee or adviser of the Company or a subsidiary of the Company (hereinafter in this item referred to as the “previous position”) until the time when the holder wants to exercise his/her stock acquisition rights. If a holder of stock acquisition rights loses the previous position, the holder may exercise his/her stock acquisition rights within 45 days from the date on which the holder loses his/her previous position. When a holder of stock acquisition rights loses his/her previous position due to physical disability or other similar cause, the holder may exercise his/her stock acquisition rights within six months from the date on which the holder loses his/her previous position. In addition, unless the holder is a director or corporate auditor of the Company, the Company may, at its sole discretion, determine how long the holder may exercise his/her stock acquisition rights from the date on which the holder loses his/her previous position. If the provisions of this paragraph conflict with any compulsory provisions applicable in the country of residence of the holder, this paragraph shall not apply to the extent that such conflict arises.
- (b) When a holder of stock acquisition rights dies, his/her heir may exercise the relevant stock acquisition rights within six months from the date on which the holder died only if the heir completes the procedures for the inheritance of stock acquisition rights as stipulated by the Company. If the provisions of this paragraph conflict with any compulsory provisions applicable in the country of residence of the holder, this paragraph shall not apply to the extent that such conflict arises.
- (c) If stock acquisition rights are pledged or any security interest on the stock acquisition rights is established, the holder of the relevant stock acquisition rights may not exercise the same.

(2) Status of Stock Acquisition Rights Granted in the Current Term for Directors and employees of subsidiaries of the Company

	Thirty-seventh Series
Date of resolution of the issue	December 3, 2019
Number of Directors and employees of subsidiaries of the Company holding stock acquisition rights (excluding Directors and employees of the Company)	10
Number of stock acquisition rights	2,250
Number of shares subject to stock acquisition rights	225,000
Type of shares subject to stock acquisition rights	Common Stock
Issue price per stock acquisition right	Without consideration
Exercise price per share at the exercise of rights	5,790 yen
Exercise period	From December 19, 2019 to December 18, 2024
Conditions for exercise of stock acquisition rights	(Note)

(Note) Please refer to (Note 3) under “(1) Status of Stock Acquisition Rights held by Directors at the End of the Current Term” in the previous pages.

(3) Other Important Matters concerning Stock Acquisition Rights

Status of Stock Acquisition Rights held by Employees of the Company, and Directors and employees of subsidiaries of the Company at the end of the current term

	Thirty-third Series	Thirty-fourth Series	Thirty-fifth Series
Date of resolution of the issue	December 22, 2015	September 14, 2016	December 7, 2017
Category	Directors and employees of subsidiaries of the Company	Employees of the Company, Directors and employees of subsidiaries of the Company	Directors and employees of subsidiaries of the Company
Number of stock acquisition rights	1,144	9,739	2,250
Number of shares subject to stock acquisition rights	114,400	973,900	225,000
Type of shares subject to stock acquisition rights	Common Stock	Common Stock	Common Stock
Issue price per stock acquisition right	Without consideration	Without consideration	Without consideration
Exercise price per share at the exercise of rights	4,690 yen	3,545 yen	6,430 yen
Exercise period	January 11, 2021	September 29, 2021	December 22, 2022
Conditions for exercise of stock acquisition rights	(Note 1)	(Note 1)	(Note 1)

	Thirty-sixth Series	Thirty-seventh Series
Date of resolution of the issue	December 3, 2018	December 3, 2019
Category	Directors and employees of subsidiaries of the Company	Directors and employees of subsidiaries of the Company
Number of stock acquisition rights	2,250	2,250
Number of shares subject to stock acquisition rights	225,000	225,000
Type of shares subject to stock acquisition rights	Common Stock	Common Stock
Issue price per stock acquisition right	Without consideration	Without consideration
Exercise price per share at the exercise of rights	6,280 yen	5,790 yen
Exercise period	December 18, 2023	December 18, 2024
Conditions for exercise of stock acquisition rights	(Note 1)	(Note 2)

- (Notes)
1. Please refer to (Note 2) under “(1) Status of Stock Acquisition Rights held by Directors at the End of the Current Term” in the previous pages.
 2. Please refer to (Note 3) under “(1) Status of Stock Acquisition Rights held by Directors at the End of the Current Term” in the previous pages.

4. Matters Concerning Directors and Corporate Auditors of the Company

(1) Directors and Corporate Auditors

(As of December 31, 2019)

Name	Title and Responsibilities at the Company and the Group	Significant Concurrent Positions
Chang Ming-Jang	Chairman and Representative Director	
Eva Chen	President and Representative Director / CEO of Trend Micro Group	
Mahendra Negi	Executive Vice President and Representative Director / CFO of Trend Micro Group	
Akihiko Omikawa	Executive Vice President and Director / General Manager Japan, Global Consumer Business / General Manager, IoT Business Promotion	
Wael Mohamed	Director	
Ikujiro Nonaka	Director	Professor Emeritus, Hitotsubashi University Graduate School of International Corporate Strategy
Tetsuo Koga	Director	Outside Director of HITO-Communications Holdings Inc. / Outside Director of Asahi Net, Inc.
Masaru Sempo	Full-time Corporate Auditor	
Fumio Hasegawa	Corporate Auditor	
Yasuo Kameoka	Corporate Auditor	Chief Director and Senior Partner of Taiko Audit Corporation
Koji Fujita	Corporate Auditor	Attorney at Law, Okuno & Partners foreign law joint enterprise / External Director of IRISO ELECTRONICS CO.,LTD.

- (Notes)
- Our officers consist of eleven (11) members, seven (7) Directors and four (4) Corporate Auditors, of which, one (1) is female and ten (10) are males as of December 31, 2019. The female officer is the President and Representative Director.
 - Mr. Ikujiro Nonaka, Director, and Mr. Tetsuo Koga, Director, are an Outside Directors under Article 2, item 15 of the Companies Act.
 - All four Corporate Auditors are Outside Auditors under Article 2, item 16 of the Companies Act.
 - Mr. Masaru Sempo, Corporate Auditor, has many years of experience in accounting and management matters. Mr. Fumio Hasegawa, Corporate Auditor, has many years of experience in finance and accounting matters. Mr. Yasuo Kameoka, Corporate Auditor, is a qualified and experienced certified public accountant. Mr. Koji Fujita, Corporate Auditor, is an attorney with experience in corporate rehabilitation and corporate legal affairs. All have appropriate knowledge regarding finance and accounting matters.
 - The Company has designated all Outside Directors and all Outside Corporate Auditors as independent director/corporate auditors upon whom the Tokyo Stock Exchange imposes the obligation of designation, and who are unlikely to cause conflicts of interest with general shareholders, and it has filed such designation with the said Exchange.

(2) Summary of Limited Liability Agreement

As long as Outside Directors and Outside Corporate Auditors perform their duties in good faith and without gross negligence with respect to the liabilities set forth in Article 423, paragraph 1 of the Companies Act, Outside Directors, full-time Outside Corporate Auditors and part-time Outside Corporate Auditors shall, in accordance with the limited liability agreement executed between the Company and them, be liable for up to 16 million yen, 10 million yen and 4.8 million yen, respectively, or the minimum liability amount prescribed by laws and regulations, whichever of these amounts is the higher.

(3) Remuneration, etc. Paid to Directors and Corporate Auditors

Category	Number of Persons	Amount of Remuneration	Remarks
Directors	7	477 (millions of yen) (Note)	Two (2) Outside Directors received 16 million yen.
Corporate Auditors	4	24 (millions of yen)	All four (4) Corporate Auditors are Outside Corporate Auditors.

(Note) Remuneration of Directors (except Outside Directors) include 111 million yen for stock options, 16million yen for PBS and 122million yen for TBS. For more information about PBS and TBS, please see the next page.

(4) The remuneration policy for Directors

Based on the details approved at the 29th General Shareholders Meeting held on March 27, 2018, the remuneration of the Company's directors has been granted within the range of 1 billion yen per year (including outside directors within 20 million yen per year) in the configuration shown in the table below.

After consulting the Nomination / Remuneration Advisory Committee regarding the ratio of remuneration of internal directors, 1. Basic remuneration, 2. Stock options, and 3. CPU award (refer to The following table) are designed to be approximately one-third in monetary terms at the time of grant.

This is intended to increase the willingness to contribute to medium- to long-term performance improvement by changing the majority of compensation to a variable system that is linked to stock prices or performance rather than fixed.

The amount of internal directors' remuneration is determined at the Board of Directors Meeting after consulting with the Nomination and Remuneration Advisory Committee and taking into account performance, remuneration rates in overseas and Japanese markets, and average salaries of employees.

The amount of internal directors' remuneration is approximately 150 million yen per person as converted to the amount at the time of grant. It is managed that there is no difference between the internal directors (Eva Chen, Mahendra Negi, Akihiko Omikawa) and the senior executives.

The reason for this is that everyone runs the company as a team, and everyone enjoys the results and takes responsibility for the results.

Internal Director Compensation Structure

	Type		Grant	Variable factors	Incentive	Limit
1	Basic remuneration		Cash	-	Basic remuneration	-
2	Stock Option		Stock acquisition right * A fair valuation (Black-Scholes model) is used for remuneration conversion	Stock price	Performance linked (long-term), stock price incentive	280,000 shares /year
3(1)	Cash Phantom Unit Award (CPU Award) * Grants the right to receive cash calculated based on the average market value of the Company's common stock over a certain period of time	Performance-based CPU awards (PBS) * Performance-based type that can be exercised on condition that the performance target(*1)	Cash	Stock price Pre-GAAP margin	Performance linked (short term)	75,000 shares equivalent /year
3(2)		Time Base CPU Award (TBS) * Time-based type that can be exercised periodically after grant	Cash	Stock price	Performance linked (long-term), stock price fluctuation risk	

Total Within 1 billion yen /year

(*1) Performance target: Pre-GAAP margin increases by more than 500 million yen from the same period of the previous fiscal year. Pre-GAAP margin means operating profit after deducting prescribed operating expenses, product development expenses, selling and general administrative expenses, depreciation expenses, acquisition and integration expenses, intangible asset depreciation expenses, and other expenses.

(5) Matters concerning Outside Directors and Outside Corporate Auditors

- (i) Relationships between the Company and other companies where Outside Directors or Outside Corporate Auditors hold a concurrent position

The Company does not have any special relationships with any of the companies where Outside Directors and Outside Corporate Auditors hold a concurrent position.

- (ii) Principal activities of Outside Directors and Outside Corporate Auditors during the current term

Name	Attendance and Comments at the Meetings of the Board of Directors and the Meetings of the Board of Corporate Auditors
Ikujiro Nonaka (Director)	Attended all 8 meetings of the Board of Directors (100%). He made comments as needed based on his expert knowledge on management theory.
Tetsuo Koga (Director)	Attended all 8 meetings of the Board of Directors (100%) held since he took office as a Director. He made comments as needed based on his expert knowledge of real industry.
Masaru Sempo (Full-time Corporate Auditor)	Attended all 8 meetings of the Board of Directors (100%) and all 13 meetings of the Board of Corporate Auditors (100%). He raised questions or expressed opinions when necessary in order to ensure the validity and appropriateness of decisions made at the meetings of the Board of Directors and at the meetings of the Board of Corporate Auditors based on his experience in accounting and management matters over the years.
Fumio Hasegawa (Corporate Auditor)	Attended 7 of 8 meetings of the Board of Directors (87.5%) and 11 of 13 meetings of the Board of Corporate Auditors (84.6%). He raised questions or expressed opinions when necessary in order to ensure the validity and appropriateness of decisions made at the meetings of the Board of Directors and at the meetings of the Board of Corporate Auditors based on his experience in finance and accounting matters over the years.
Yasuo Kameoka (Corporate Auditor)	Attended all 8 meetings of the Board of Directors (100%) and all 13 meetings of the Board of Corporate Auditors (100%). He raised questions or expressed opinions when necessary in order to ensure the validity and appropriateness of decisions made at the meetings of the Board of Directors and at the meetings of the Board of Corporate Auditors mainly based on his expert knowledge as a certified public accountant.
Koji Fujita (Corporate Auditor)	Attended all 8 meetings of the Board of Directors (100%) and 11 of 13 meetings of the Board of Corporate Auditors (84.6%). He raised questions or expressed opinions when necessary in order to ensure the validity and appropriateness of decisions made at the meetings of the Board of Directors and at the meetings of the Board of Corporate Auditors mainly based on his expert knowledge as an attorney.

5. Status of Accounting Auditor

(1) Name of Accounting Auditor of the Company

KPMG AZSA LLC

(2) Remuneration, etc. Paid to Accounting Auditor

(Millions of yen)

(i)	Amount of fees and charges paid to accounting auditors for the term under review	87
(ii)	Total amount of cash and other financial benefits payable by the Company and its subsidiaries	87

- (Notes) 1. As the audit fees under the Companies Act and those under the Financial Instruments and Exchange Act are not separated for the purpose of the audit contract executed between the Company and the accounting auditors and are impractical to separate, the amount specified in (i) above is indicated as the total amount of audit fees payable under both laws.
2. Three of the important subsidiaries of the Company are audited by certified public accountants or audit corporations other than the Accounting Auditor of the Company (including qualified persons equivalent thereto in foreign countries).

(3) Reasons for Agreement to the Amount of Remuneration, etc. to be Paid to Accounting Auditor

The Board of Corporate Auditors has decided to agree on the amount of remuneration, etc. to be paid to the Accounting Auditor, after conducting necessary assessment with regard to the content of its audit plans the execution status of the accounting audits, and the calculation basis of the remuneration amount.

(4) Policies Regarding Decisions on the Dismissal or Non-reappointment of Accounting Auditor

In the event that the Accounting Auditor is deemed to fall under any of the items prescribed in Article 340, paragraph 1 of the Companies Act, the Board of Corporate Auditors shall, pursuant to the unanimous consent of Corporate Auditors, dismiss the Accounting Auditor.

In addition to the above, in the event that it is deemed difficult for the Accounting Auditor to appropriately carry out its duties, or in consideration of the execution status of its duties, etc., the Board of Corporate Auditors shall, in accordance with Article 344, paragraphs 1 and 3 of the Companies Act, propose the dismissal or non-reappointment of the Accounting Auditor as an agenda item at a general meeting of shareholders for resolution.

6. Systems and Policies of the Company

Basic Policies of the Systems to Ensure the Appropriateness of Operations of the Company's Directors and the Outline of said System's Operation Status

(1) System for the storage and control of information on the execution of our Directors' duties

- i) Any information on the execution of our Directors' duties shall be stored and controlled in proper, assured and highly retrievable conditions depending on storing medium in accordance with the Confidential Information Control Rules, the Detailed Regulations on Confidential Information Management and Operation, and other internal regulations. It shall be ensured that our Directors and Corporate Auditors access such information at any time. A storage period shall be the period set forth in the Document-Handling Rule.
- ii) The protection and storage of information under the information system shall be as set forth in the Information Security Policy (Global Policy).

(2) Our regulations and other system for the control of the risk of loss

- i) The Company shall be aware of the risks that come with our products and services, and with the Company's infrastructure arising in the course of the execution of our business. The Company shall, therefore, establish a system to properly grasp and control such risks by appointing a person in charge for the proper administration of each occurrence of the risks.
- ii) The Company shall establish a risk-management department and a compliance security committee with one of our Representative Directors as a chairperson to supervise the compliance and risk control system.
- iii) Any divulcation, theft, loss, corruption, interpolation and the like of information would cause the Company to suffer enormous damage and a loss of credibility. Therefore, the Company shall control such risks in accordance with the provisions of the Information Security Policy (Global Policy), the Confidential Information Control Regulations, the Risk Management Guideline, the Personal Information Protection Manual and the like.
- iv) In the event an unforeseen contingency occurs, the Company shall establish a crisis team (or a SWAT team) with our Director in charge of the Japan Region as a risk manager to move quickly on the situation, and shall establish a system to prevent and minimize additional damage, including damage to our clients.

(3) System to ensure the efficient execution of our Directors' duties

- i) As a basis for a system to ensure the efficient execution of our Directors' duties, a meeting of the Board of Directors shall be held at least once every three months, and in a timely manner from time to time if necessary. Any important matters relating to the Company's management policies and strategies shall be determined making reference to the results of an Executive Meeting and a periodical Budget Review Process.
- ii) In order to execute the Company's operations based on the resolutions of our Board of Directors, each person in charge of respective operations, his or her responsibilities, and the details of execution procedures shall be named and set forth in an administrative authority rule, a rule on our executives and the like.

(4) System to ensure that the execution of the duties of the Directors and employees of the Company and the director and employees of our subsidiaries comply with relevant laws and regulations and the Articles of Incorporation

- i) As the basis of the compliance system of each of our group companies, a Code of Conduct, Regulations on Insider Trading and the like shall be established. In order to confirm the implementation of the Code of Conduct, an acknowledgement research shall be carried out to all the directors and employees of our group companies every year.
In addition to the above, if necessary, each department shall establish a guideline and the like, and give training for the said purpose.

- ii) The Company shall establish a compliance security committee with a Representative Director as a chairperson to maintain and improve the internal control system.
- iii) Each of our group companies shall appoint an internal control manager responsible for facilitating the internal control system, and from time to time, other persons for practical activities under the internal control manager.
- iv) Any Director of the Company or director of our group companies who has discovered a material illegal act or a compliance-related important fact in any of our group companies shall immediately advise any of the Corporate Auditors thereof, and shall also report it at a meeting of the Board of Directors without delay.
- v) In accordance with the Whistle-blowing Report Procedures, which regulate an internal notification and reporting system regarding any illegal acts and other compliance-related matters, the Human Resources Division and the Internal Audit Department shall take the initiative as responsible departments. The Internal Auditor shall summarize the fact(s) so reported by sorting out the existence or non-existence and details thereof to report the results to the CEO, CFO and Corporate Auditors every quarter. Provided, however, that he or she shall report every urgent matter to them every time when it occurs.
- vi) Any of our Corporate Auditors may offer an opinion and request the Company to establish remediation measures in cases where he or she considers that there is a problem with the compliance system and/or the operation of the Whistle-blowing Report Procedures of any of our group companies.

(5) System to ensure the proper operations of the corporate group consisting of the Company and its subsidiaries

- i) In order to ensure the proper operations of our group companies, the Company shall apply the Code of Conduct and the Whistle-blowing Report Procedures to all group companies including the Company, and shall require each of the group companies to grasp any risks related to the execution of the operations, and to establish and periodically confirm a system to control such risks depending on the scale and nature of the respective operations, in accordance with an affiliate companies administration rule.

In order to carry out the management control, the Company shall establish a rule on our executives, the affiliate companies administration rule, a Finance Control and Approval and Signature Authority to control the management of the subsidiaries through a system in which they shall request our decisions on certain matters or make reports to us, and through monitoring the management of the subsidiaries at every executive meeting, or in the course of a periodical Budget Review Process.

Any Director of the Company or director of our subsidiaries who has discovered any illegal act, compliance-related material matter, or other fact of concern in terms of our risk management, regarding our group companies, he or she shall immediately report it to our Corporate Auditors and Board of Directors.

- ii) In order to ensure reliability for the financial reports of the Company and our group companies, the internal control system shall be extended to cover the financial reports.
- iii) Any director of our subsidiaries who considers the management control and guidance of the Company to be illegal or have a problem in terms of compliance shall advise our Board of Directors and Corporate Auditors of that effect.

Upon receiving such report, our Corporate Auditors may offer an opinion to the Board of Directors, and require the Board of Directors to establish remedial measures.

- iv) The Internal Auditor shall from time to time visit any of our subsidiaries to perform monitoring of all the angles of situations of the subsidiary's operations.
- v) Our Corporate Auditors shall visit any of our subsidiaries if necessary to investigate the business and financial conditions of the subsidiary.

- (6) **Matters regarding an employee(s) that any of our Corporate Auditors requires the Company to appoint to assist the Corporate Auditor's duties, and matters regarding the independence of such employee(s) from our Directors, and matters regarding the ensuring of the effectiveness of instructions to such employee(s)**
- i) In the event that any of our Corporate Auditors requires the Company to appoint an employee(s) (hereafter referred to as "Auditor's Staff") to assist his or her duties, the Company shall arrange proper personnel after consulting with the Corporate Auditor to determine the required number, qualification and the like.
 - ii) The Company shall determine the personnel change, evaluation and others of the Auditor's Staff assigned, respecting the Corporate Auditor's opinion, and shall secure independence from our Directors.
 - iii) If necessary, any of our Corporate Auditors may instruct any of our employees to do an audit of a specific matter after notifying his or her immediate manager. In this case, the employee who has received the instructions shall make a report on such business to the Corporate Auditor, regardless of the ordinary reporting line.
 - iv) The Directors and employees of the Company and the directors and employees of our subsidiaries shall cooperate in the effort to improve the audit environment in which the Auditor's Staff can conduct his or her business smoothly.
- (7) **System for the Directors and employees of the Company and the directors and employees of our subsidiaries, or for the persons who have received reports from them to give their reports to any of the Corporate Auditors, and a system to ensure that the persons who have given their reports are not unfavourably treated on grounds that they have given such reports.**
- i) Our Directors shall give a report of the following to our Corporate Auditors:
 - (a) Such matters as resolved at an Executive Meeting;
 - (b) Such matters as may cause substantial damage to the Company;
 - (c) Such important matters as may have an effect on our management;
 - (d) Such important matters as may have an effect on our internal control auditing, organization and practice and our risk management;
 - (e) Acts in material violation of laws and regulations or the Articles of Incorporation;
 - (f) Such matters as a change in, or the introduction of a type of, our accounting policies; and
 - (g) Other important matters from compliance.

In the event any employee of the Company and our subsidiaries finds any of the material facts referred to in sub-items (b), (d), (e) and (g) above, he or she may directly advise any of our Corporate Auditors of such fact.
 - ii) The Company shall secure a proper reporting system to timely advise any of our Corporate Auditors of illegal acts and other compliance matters by properly applying the Code of Conduct and the Whistle-blowing Report Procedures to the Company and all our group companies.
 - iii) The Company shall provide in the Whistle-blowing Report Procedures that the Company shall handle all reports so received carefully and shall make every effort to keep the identities of those who have given such reports confidential. In addition, the Company shall specify therein that they shall not be unfavourably treated.
- (8) **Such matters as the procedures for advance payment for, or reimbursement of the cost arising from the execution of our Corporate Auditors' duties, and such matters as the policies to cope with other cost and obligations arising from such execution of their duties**
- i) In cases where any of our Corporate Auditors considers necessary to execute his or her duties, he or she may seek the opinions of outside specialists such as lawyers, certified public accountants and the like. He or she may demand to the Company advance payment or reimbursement of the cost necessary for the execution of the Corporate Auditor's duties.

(9) Other systems to ensure our Corporate Auditors' effective audit

- i) Any of our Representative Directors shall provide opportunities to exchange opinions with our Corporate Auditors periodically for better communication, and also provide opportunities for our Corporate Auditors to hear opinions from our employees on their work if necessary to promote our Corporate Auditors' better understanding of the content of our business activities.
- ii) The Internal Audit Department that has charge of internal audit shall consult, engage in exchanges of views, share information, and maintain close contact with our Corporate Auditors
- iii) Our Directors shall ensure opportunities for our Corporate Auditors to attend not only a meeting of the Board of Directors, but also other important meetings such as the Compliance Security Committee, Executive Meetings and the like in order to grasp our important processes for making various decisions as well as the actual state of the execution of our operations.
- iv) Our Corporate Auditors may have access to approval documents (*Ringisho*) and other important documents regarding the execution of business, and may request explanations thereof from our Directors and employees if necessary. The Corporate Auditors may also make their own opinions thereon.
- v) The Company shall make an effort to invite lawyers, certified public accountants, patent attorneys and any other outside specialists in appointing an outside auditor(s).

While having developed systems mentioned above, the Company carries out the following based on the basic policies

- (a) The Company established the Code of Conduct as the basis of our Group's compliance system and implements annual Acknowledgement for all directors and employees of our group companies.
- (b) As a secretariat to organize compliance and risk management, the Risk Management Office holds Compliance Security Committee meetings on a quarterly basis. In addition, in order to maintain and enhance the awareness of compliance, the Company formulates an annual schedule of internal training for directors and employees, and carries it out accordingly.
- (c) Corporate Auditors, the internal auditing department, the internal control department and the Accounting Auditor periodically discuss and exchange opinions on matters relating to the operation status of the internal control system and auditing results of the whole Group including the Company and its subsidiaries. The Company endeavors to enhance the operation status of the internal control system through close cooperation among the involved parties.
- (d) In addition to attending important meetings such as the meeting of the Board of Directors and reviewing important documents including approval documents (*Ringisho*), etc., Corporate Auditors deepen their understanding concerning the Company's business in order to ensure the efficiency of auditing through quarterly review meetings with Representative Director, Internal Auditor and Corporate Auditors, periodical exchange of opinions among Representative Director and Corporate Auditors or reports from Directors and employees, and gathering of opinions from employees regarding the business for which they are in charge of.

(Note) The amounts stated in this Business Report are rounded downward to the nearest stated unit.

(1) Consolidated Balance Sheet

(As of December 31, 2019)

(Yen in millions)

Account	Amount
<Assets>	
Current assets	227,347
Cash and bank deposits	124,982
Notes and accounts receivable, trade	45,231
Marketable securities	47,617
Inventories	4,106
Others	5,702
Allowance for bad debt	(292)
Non-current assets	132,362
Property and equipment	9,860
Buildings and structures, net	5,358
Office furniture and equipment	4,485
Others	16
Intangibles	36,177
Software	11,174
Goodwill	10,096
Others	14,906
Investments and other non-current assets	86,324
Investment securities	49,569
Investments in subsidiaries and affiliates	421
Deferred tax assets	34,501
Others	1,832
Total assets	359,710

(Yen in millions)

Account	Amount
<Liabilities>	
Current liabilities	119,561
Notes and accounts payable, trade	1,202
Accounts payable, other	4,565
Accrued expenses	6,488
Accrued income and other taxes	8,063
Allowance for bonuses	2,598
Allowance for sales return	803
Short-term deferred revenue	88,791
Others	7,048
Non-current liabilities	52,724
Long-term deferred revenue	42,480
Net defined benefit liability	6,197
Others	4,046
Total liabilities	172,285
<Net assets>	
Shareholders' equity	191,205
Common stock	18,822
Additional paid-in capital	24,715
Retained earnings	153,788
Treasury stock	(6,119)
Accumulated other comprehensive income	(5,035)
Unrealized gain on available for sale securities	1
Foreign currency translation adjustment	(4,560)
Remeasurements of defined benefit plans	(476)
Stock acquisition right	1,102
Non-controlling interest	152
Total net assets	187,425
Total liabilities and net assets	359,710

(2) Consolidated Profit and Loss Statement

(From January 1, 2019 to December 31, 2019)

(Yen in millions)

Account	Amount	
Net sales		165,195
Cost of sales		32,299
Gross profit		132,895
Selling, general and administrative expense		95,209
Operating income		37,686
Non-operating income		
Interest income	1,705	
Gain on sales of marketable securities	60	
Equity in gain of affiliated companies	25	
Others	449	2,241
Non-operating expenses		
Loss on disposal of fixed assets	69	
Foreign exchange loss	474	
Loss on valuation of investment securities	147	
Others	96	788
Ordinary income		39,139
Net income before taxes		39,139
Income taxes current	15,922	
Income taxes deferred	(4,600)	11,322
Net income before non-controlling interest		27,816
Non-controlling interest in income of consolidated subsidiaries		(129)
Net income attributable to owners of the parent		27,946

(3) Consolidated Statements of Changes in Net Assets

(From January 1, 2019 to December 31, 2019)

(Yen in millions)

	Shareholders' equity				
	Common stock	Additional paid in capital	Retained earnings	Treasury stock	Total shareholders' equity
Balance at the beginning of current period	18,533	24,895	148,601	(2,421)	189,608
Movement for this period					
Issuance of new stocks	288	288			576
Dividends of surplus			(22,759)		(22,759)
Net income			27,946		27,946
Sales of treasury stock		(73)		1,636	1,563
Purchase of treasury stock				(5,335)	(5,335)
Change in ownership interest of parent due to transactions with non-controlling interests		(395)			(395)
Movement for this period excluding shareholders' equity					
Total movement	288	(179)	5,186	(3,698)	1,597
Balance at the end of current period	18,822	24,715	153,788	(6,119)	191,205

	Accumulated other comprehensive income				Stock acquisition right
	Unrealized gain on available for sales securities	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	
Balance at the beginning of current period	(251)	(2,727)	(644)	(3,623)	1,022
Movement for this period					
Issuance of new stocks					
Dividends of surplus					
Net income					
Purchase of treasury stock					
Sales of treasury stock					
Change in ownership interest of parent due to transactions with non-controlling interests					
Movement for this period excluding shareholders' equity	252	(1,832)	168	(1,411)	79
Total movement	252	(1,832)	168	(1,411)	79
Balance at the end of current period	1	(4,560)	(476)	(5,035)	1,102

	Minority interest	Total net assets
Balance at the beginning of current period	76	187,083
Movement for this period		
Issuance of new stocks		576
Dividends of surplus		(22,759)
Net income		27,946
Purchase of treasury stock		1,563
Sales of treasury stock		(5,335)
Change in ownership interest of parent due to transactions with non- controlling interests		(395)
Movement for this period excluding shareholders' equity	75	(1,256)
Total movement	75	341
Balance at the end of current period	152	187,425

Balance Sheet

(As of December 31, 2019)

(Yen in millions)

Account	Amount	Account	Amount
<Assets>		<Liabilities>	
Current assets	88,703	Current liabilities	60,463
Cash and bank deposits	45,556	Accounts payable, trade	437
Notes and Accounts receivable, trade	13,183	Accounts payable, other	10,939
Marketable securities	24,695	Accrued expenses	3
Product	164	Accrued income and other taxes	6,963
Raw material	350	Accrued consumption taxes	1,174
Supplies	114	Deposit	219
Prepaid expense	189	Allowance for bonuses	146
Account receivable others	4,117	Allowance for sales return	544
Others	332	Short-term deferred revenue	39,221
		Others	812
Non-current assets	84,893	Non-current liabilities	29,563
Property and equipment	598	Long-term deferred revenue	23,451
Buildings	1,037	Long-term account payable	2
Office furniture and equipment	1,404	Allowance for retirement benefits	4,589
Accumulated depreciation	(1,842)	Others	1,519
Intangibles	5,289	Total liabilities	90,026
Software	3,769	<Net assets>	
Software in progress	354	Shareholders' equity	82,501
Goodwill	31	Common stock	18,822
Others	1,133	Capital surplus	24,952
Investments and other non-current assets	79,004	Additional paid-in capital	21,544
Investment securities	28,013	Other Capital surplus	3,408
Investments in subsidiaries and affiliates	24,734	Retained earnings	44,846
Deposit for landlord	581	Legal reserve	20
Memberships	4	Accumulated profit	44,825
Deferred tax assets	25,674	Retained earnings carried forward	44,825
Allowance for investment loss	(4)	Treasury stock	(6,119)
		Valuation and translation adjustment	(33)
		Net unrealized gain (loss) on debt and equity securities	(33)
		Stock acquisition right	1,102
		Total net assets	83,570
Total assets	173,596	Total liabilities and net assets	173,596

Profit and Loss Statement

(From January 1, 2019 to December 31, 2019)

(Yen in millions)

Account	Amount	
Sales Revenue		
Sales	66,556	
Royalty	9	66,566
Cost of sales		16,100
Gross profit		50,466
Operating expenses		30,603
Operating income		19,863
Non-operating income		
Interest on loans receivable from subsidiaries and affiliates	10	
Interest income	2	
Interest on marketable securities	237	
Dividends from subsidiaries and affiliates	10,135	
Others	104	10,491
Non-operating expense		
Foreign exchange loss	10	
Loss on disposal of fixed assets	6	
Others	44	61
Ordinary income		30,293
Net income before taxes		30,293
Income taxes current	9,727	
Income taxes deferred	(3,460)	6,267
Net income		24,025

Statements of Changes in Net Assets

(From January 1, 2019 to December 31, 2019)

(Yen in millions)

	Shareholders' equity				
	Common stock	Capital surplus		Retained earnings	
		Additional paid-in capital	Other capital surplus	Legal reserve	Accumulated profit
					Retained earnings carried forward
Balance at the beginning of current period	18,533	21,255	3,481	20	43,559
Movement for the period					
Issuance of new stocks	288	288			
Dividends of surplus					(22,759)
Net income					24,025
Sales of treasury stock			(73)		
Purchase of treasury stock					
Movement for the period excluding shareholders' equity					
Total movement	288	288	(73)	—	1,266
Balance at the end of current period	18,822	21,544	3,408	20	44,825

	Shareholders' equity		Valuation and translation adjustment	Stock acquisition right	Total net assets
	Treasury stock	Total shareholders' equity	Unrealized gain(loss) on available-for-sales securities		
Balance at the beginning of current period	(2,421)	84,429	(126)	1,022	85,325
Movement for the period					
Issuance of new stocks		576			576
Dividends of surplus		(22,759)			(22,759)
Net income		24,025			24,025
Sales of treasury stock	1,636	1,563			1,563
Purchase of treasury stock	(5,335)	(5,335)			(5,335)
Movement for the period excluding shareholders' equity			93	79	173
Total movement	(3,698)	(1,928)	93	79	(1,755)
Balance at the end of current period	(6,119)	82,501	(33)	1,102	83,570

Notes to the Consolidated Financial Statements

(NOTES ON IMPORTANT POINTS IN THE PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS)

1. Matters Concerning the Scope of Consolidation

(1) Number of Consolidated Subsidiaries: Thirty nine (39)

(2) Names of Major Subsidiaries

Company Name	
Trend Micro Incorporated	(Taiwan)
Trend Micro Incorporated	(U.S.A.)
Trend Micro Australia Pty.Ltd.	(Australia)
Trend Micro (EMEA) Limited	(Ireland)

TX One Networks Inc. were newly established and Cloud Conformity Inc.(U.S.A.) and Cloud Conformity Pty.Ltd.(Australia) were newly acquired and have been included in the scope of consolidation.

Socii Co., Ltd., which had been a consolidated subsidiary, was excluded from the scope of consolidation due to the liquidation.

(3) Names of Unconsolidated Subsidiaries.

Cloud Conformity Inc (Canada)

Cloud Conformity UK Ltd (United Kingdom)

The reason for scope out of consolidation

These two subsidiaries' total assets, net sales, net income and retained earnings are not material for the consolidated financial statements.

Broadweb Corporation (Brunei) and Broadweb Corporation (Republic of Seychelles), which had been an unconsolidated subsidiary, was excluded due to the liquidation.

2. Matters Concerning Application of Equity Method

(1) Number of the Affiliate Companies to which the equity method has been applied: 1

(2) Names of the affiliate companies to which the equity method has been applied:

General Mobile Corporation (Cayman Islands)

AsiaInfo Security Limited (British Virgin Islands) was excluded due to transfer its share.

(3) The affiliate company and unconsolidated subsidiaries to which the equity method has not been applied.

Cloud Conformity Inc (Canada)

Cloud Conformity UK Ltd (United Kingdom)

The reason for scope out of equity method

These two subsidiaries' total net income and retained earnings are not material for the consolidated financial statements.

3. Matters Concerning the Accounting Standards

(1) Accounting for evaluation of material assets

(i) Securities

Available-for-sale with market value:

The securities are stated using the market value method based on the value at the end of the period (Valuated differences are recognized in equity directly. Cost of selling is determined by the moving average method.)

Available-for-sale without market value:

Cost basis by moving average method

(ii) Inventories:

Cost basis by moving average method

Unprofitable inventories are devaluated

(2) Depreciation or Amortization method for fixed assets

Property and equipment (excluding lease assets)

Mainly, depreciation is computed using the declining-balance method (except for the facilities attached to buildings and structure acquired on and after April 1, 2016, which is depreciated by straight-line method) in the parent company and is computed by the straight-line method in consolidated subsidiaries. Useful life of the main property and equipment is as follows:

Office furniture and equipment: mainly 2 – 20 years

Intangibles (excluding lease assets)

<Software for sale>

Straight-line method over the estimated useful life (12 months).

<Software for internal use>

Straight-line method over the estimated useful life (mainly 5 years).

<Other intangibles>

Straight-line method over the estimated useful life

Lease assets

Lease assets arising from non-ownership-transfer finance leases

The Company has applied the straight-line method, which assumes that useful life is equal to the lease period and that estimated residual value is zero.

(3) Accounting policies for allowances

Allowance for bad debt

In order to provide a reserve against future losses from default of notes and accounts receivable, bad debt provision is provided. The amount is determined using the percentage based on actual doubtful account loss against the total of debts. As for high-risk receivables, expected unrecoverable amount is considered individually.

Allowance for bonuses

Bonuses for employees are provided at an estimate of the amount.

Allowance for sales return

In order to provide a reserve against future losses from sales return subsequent to the fiscal year end, allowance for sales return is provided based on past experience of the sales return.

(4) Accounting methods for retirement benefit obligation

▸ Attribution method for retirement benefit estimates

In computing its retirement benefit obligation, the expected retirement benefits are attributed to the periods by standard pension benefit formula basis.

▸ Treatment for actuarial differences and expenses related to prior service cost

Actuarial differences are amortized on a straight-line basis from the following fiscal year over a period equaling the average remaining service period of employees (1-23 years) expected to receive pension benefits as of the consolidated fiscal year-end.

Prior service cost is amortized on a straight-line basis over a period equaling the average remaining service period of employees (1-23 years) expected to receive pension benefits as of the fiscal year-end.

(5) Policy for translation of major foreign currency assets and liabilities into Yen

Foreign currency denominated receivables and payables are translated into Japanese yen at period-end rates of exchange and the resulting foreign currency translation adjustments are taken into account in regards to profits and losses.

Assets and liabilities of foreign subsidiaries are translated into Japanese yen at period-end spot exchange rates and all income and expense accounts are translated at the average exchange rate. The resulting translation adjustments are included in foreign currency translation adjustment and minority interest.

(6) Revenue Recognition Policy

Sales recognition policy for PCS

Post Contract Customer Support Service (PCS) is a software product license agreement that includes end-user support, such as upgrading products and virus pattern files and providing customer service. The Company applies the following revenue recognition method for the share of PCS revenue.

PCS revenue is recognized separately from total revenue and is deferred as deferred revenues under current and non-current liabilities based on the contracted period. Deferred revenue is finally recognized as revenue evenly over the contracted period.

(7) Consumption tax

Consumption tax is stated at the amount net of the related consumption tax.

(8) Amortization of Goodwill

Goodwill is amortized evenly over the appropriate period, not exceeding 20 years.

(9) All the amounts shown in yen in this document have been expressed in the unit of one million (1,000,000) yen, with any amount less than such unit being disregarded.

(Accounting Standard Not Yet Applied)

(“Accounting Standard for Revenue Recognition” etc.)

-“Accounting Standard for Revenue Recognition”(ASBJ Statement No.29, March 30, 2018 (hereinafter,”Statement No.29”))

-“Implementation Guidance on Accounting Standard for Revenue Recognition”(ASBJ Guidance No.30, March 30, 2018 (hereinafter,”Statement No.29”))

(1) Overview

The International Accounting Standards Board (IASB) and the U.S.Financial Accounting Standards Board(FASB) collaborated on a project to develop a single, comprehensive revenue recognition model and jointly issued new revenue recognition standards “Revenue from Contracts with Customers” (IFRS 15 published by IASB, Topic606 published by FASB) in May 2014. IFRS15 is effective for annual reporting periods beginning on or after 1 January 2018 and Topic606 is effective for annual reporting periods beginning after December 15, 2017.

Considering the above circumstances, the Accounting Standard Board of Japan (ASBJ) also developed a new revenue recognition standards and issued Statement No.29 together with Guidance No.30.

ASBJ’s basic policy in developing the new revenue recognition standards is to first incorporate the core principle of IFRS 15 in the light of improving the international comparability of financial statements and then add additional alternative treatments to the extent that international comparability would not be significantly impaired where any business practices operated in Japan need to be considered.

(2) Scheduled date of applying the new guidance

Effective from the beginning of the fiscal year ending December 31, 2022.

(3) The effects by the application of the new guidance, etc.

The Company and its consolidated domestic subsidiaries are currently in the process of determining the effects of these new standards on the consolidated financial statements.

(“Accounting Standard for Fair Value Measurement” etc.)

-“Accounting Standard for Fair Value Measurement” (ASBJ Statement No.30, July 4, 2019)

-“Implementation Guidance on Accounting Standard for Fair Value Measurement” (ASBJ Guidance No.31, July 4, 2019)

(1) Overview

The International Accounting Standards Board (IASB) and the U.S.Financial Accounting Standards Board (FASB) collaborated on a project to develop Fair value measurement and jointly issued new “Accounting Standard for Fair Value Measurementnew” (IFRS 13 published by IASB, Topic 820 published by FASB) in May 2011. IFRS13 is effective for annual reporting periods beginning on or after 1 January 2013 and Topic820 is effective for annual reporting periods beginning after December 15, 2011.

Considering the above circumstances, the Accounting Standard Board of Japan (ASBJ) also developed a new Fair value measurement standard and issued Statement No.30 together with Guidance No.31.

ASBJ's basic policy in developing the new Fair Value measurement standards is to first incorporate the core principle of IFRS 13 in the light of improving the international comparability of financial statements and then add additional alternative treatments to the extent that international comparability would not be significantly impaired where any business practices operated in Japan need to be considered.

(2) Scheduled date of applying the new guidance

Effective from the beginning of the fiscal year ending December 31, 2022.

(3) The effects by the application of the new guidance, etc.

The Company and its consolidated domestic subsidiaries are currently in the process of determining the effects of these new standards on the consolidated financial statements.

(Change in presentation)

(Applying the Partial Amendments to Accounting Standard for Tax Effect Accounting)

In accordance with "Partial Amendments to Accounting Standard for Tax Effect Accounting" (Accounting Standards Board of Japan (ASBJ) Statement No. 28, issued February 16, 2018), the Company has applied "Ministerial Ordinance on Partial Amendments to the Ordinance for Enforcement of the Companies Act and the Ordinance on Company Accounting" (Ministry of Justice Order No. 5 of March 26, 2018) from the current fiscal year. Accordingly, deferred tax assets are presented in investments and other assets and deferred tax liabilities are presented in noncurrent liabilities.

(Additional Information)

(Transfer of AsiaInfo Security Limited's shares)

On October 8, 2019, Trend Micro has reached a share transfer agreement with Great Media Security Limited to transfer all shares of Asia Info Security Limited, which is an equity-method.

Though the shareholders' right is transferred, the settlement of the consideration is done by installment payment: April 2020, October 2020, and October 2021. The consideration will be Approximately 585 million RMB (approximately 8.7 billion yen / 1 RMB=15 JPY).

Asia Info Security Limited's share is transferred to Great Media Security Limited. However, Trend Micro has the right to recover the share rights in case of default. Thus it is interpreted as such Trend Micro keeps the share investment as it is. The book value will be transferred to investment securities, and the gain on sale will be recognized in October 2021, after all consideration is received.

(NOTES TO THE CONSOLIDATED BALANCE SHEET)

Accumulated depreciation of property and equipment: 20,805 million yen

(NOTES TO THE CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS)

1. The Type and Number of Equity Shares Outstanding as of the End of the Consolidated Fiscal Term:

Common stock 140,513,004 shares

The class and number of treasury stock

Class	As of Jan 1, 2019	Increase	Decrease	As of Dec 31, 2019
Common Stock	738,274 shares	1,000,081 shares	372,700 shares	1,365,655 shares

2. Matters Concerning Dividends Paid out of the Surplus during the Consolidated Fiscal Term

The resolution	The annual shareholders meeting held on 26 March, 2019
The type of equity shares	Ordinary shares
The total amount of dividends paid	22,759 million yen
The amount of dividend paid per share	163.00 yen
The record date	31 December, 2018
The effective date	27 March, 2019

3. The Dividend Whose Record Date falls in the Consolidated Fiscal Term and Whose Effective Date falls in the Next Consolidated Fiscal Term

The resolution	The annual shareholders meeting to be held on 26 March, 2020
The type of the equity shares	Ordinary shares
The source of dividend payment	Retained earnings
The total amount of dividends paid	22,263 million yen
The amount of dividend paid per share	160.00 yen
The record date	31 December, 2019
The effective date	27 March, 2020

4. The Type and the Number of Shares to be Issued or Transferred upon Exercise of Stock Acquisition Rights (Excluding Those of Which the Exercise Period Has not Commenced) as of the End of the Consolidated Fiscal Term

Ordinary shares 269,900 shares

Based on the employees' termination, the Company adjust the economic value of stock option for computation.

(NOTES TO FINANCIAL INSTRUMENTS)

1. Matters concerning financial instruments

(1) Policies for financial instruments

The Company primarily makes it a policy to use its own money to finance the working capital and equipment funds, in which any surplus funds are invested in financial instruments with higher degrees of safety.

(2) Details of financial instruments and associated risks

Notes and accounts receivable, trade, are exposed to the credit risks associated with extending credit to customers. Foreign currency denominated trade receivables and payables are exposed to foreign currency exchange fluctuation risks. Marketable securities and investment securities are debt securities issued by financial institutions with superior creditworthiness, exposed to market price fluctuation risks as well as foreign currency exchange fluctuation risks. Payables such as accounts payable, trade, accounts payable, other, accrued expenses and accrued income and other taxes are mostly due within one year.

(3) Risk management structure for financial instruments

(i) Credit risk management (risks associated with the default etc., of business counter-parties)

Regarding the trade receivables, the Company and each of its subsidiaries are regularly monitoring the financial position of major business counter-parties, such as clients, by checking the due date and balance for each business transaction, to ensure earliest possible identification and mitigation of the potential bad debt associated with the deterioration of their financial position.

(ii) Market risk management (including risks associated with foreign currency exchange and interest rate fluctuation)

To manage risks involving fluctuations in the market price of marketable securities and investment securities, the Company is regularly monitoring their market prices as well as the financial positions of their issuers (clients and other business connections).

(iii) Liquidity risk management on fund raising (risk of the Company being unable to repay within the due date)

To manage and mitigate liquidity risks, a cash management plan is prepared and updated by the Administration Division when appropriate, while reasonable liquidity on hand is maintained at all time.

(4) Supplementary explanation concerning fair values, etc. of financial instruments

Fair values of financial instruments comprise values based on market prices, and reasonably calculated values if there is no market price. Such calculated values involve certain variable factors and thus may vary depending on the different assumptions.

2. Matters concerning fair values of financial instruments

Consolidated balance sheet amounts, fair values and the differences therein as of December 31, 2019 (fiscal year end) are as follows. Investments in non-marketable securities are not included in this table.

(Yen in millions)

	Consolidated balance sheet amounts	Fair values	Differences
(1) Cash and bank deposits	124,982	124,982	—
(2) Notes and accounts receivable, trade	45,231	45,231	—
(3) Marketable securities and investment securities (*1)	90,212	90,212	—
Total assets	260,426	260,426	—
(1) Notes and accounts payable, trade	1,202	1,202	—
(2) Accounts payable, other	4,565	4,565	—
(3) Accrued expenses	6,488	6,488	—
(4) Accrued income and other taxes	8,063	8,063	—
Total liabilities	20,319	20,319	—

(*1) AsiaInfo Security Limited's shares 1,645 million yen was not included. Refer to Additional Information.

(Notes 1) Matters concerning the methods for calculating fair value of financial instruments and the transactions of marketable securities

Assets

(1) Cash and bank deposits, (2) Notes and accounts receivable, trade

These assets are recorded at book values as their fair values are approximately equal to book values due to their short-term maturities.

(3) Marketable securities and investment securities

Fair values of shares are based on the market prices quoted on stock exchanges, while the price of bonds are based on the market prices quoted on stock exchanges or obtained from the relevant financial institutions.

Liabilities

(1) Accounts payable and Notes payable, trade, (2) Accounts payable, other, (3) Accrued expenses, (4) Accrued income and other taxes

These liabilities are recorded at book values as their fair values are approximately equal to book values due to their short-term maturities.

(Notes 2) Non-listed stocks (5,750 million yen recorded on consolidated balance sheet) are not included in “(3) Marketable securities and investment securities” since the identification of its market values is deemed to be extremely difficult.

(NOTES ON PER SHARE INFORMATION)

- | | |
|---|--------------|
| 1. The net assets per share: | 1,337.94 yen |
| 2. The net income for the term per share: | 200.94 yen |

(NOTES ON MATERIAL SUBSEQUENT EVENTS)

N/A

(OTHER NOTES)

(Business combination)

(Business combination by acquisition)

1. Outline of the business combination

(1) Name and business of the acquires company

Name : Cloud Conformity, Inc. and others

Business : Cloud Security Posture Management (CSPM)

(2) Major reasons for the business combination

This acquisition builds upon Trend Micro's continuous innovation in cloud security, adding complementary capabilities that automatically identify and fix a range of cloud infrastructure configuration issues. It also optimizes costs and helps ensure compliance with leading industry regulatory standards such as PCI, GDPR, HIPAA and NIST.

(3) Date of the business combination : October 18, 2019

(4) Legal form of the business combination : Share acquisition by cash

(5) Name after the business combination : Trend Micro Incorporated (U.S.A.)

(6) Reason for deciding on the company from which to acquire its shares :

Trend Micro Incorporated has acquires its shares for cash.

2. Period when the consolidated financial statements include the result of the acquired business

October 18, 2019 to December 31, 2019

3. Cost of acquisition of the acquired business and breakdown of the consideration

Consideration for the acquisition	Cash	6,798 million yen
Cost of acquisition		6,798 million yen

4. Content and amount of major acquisition-related expenses

Advisory fee, etc. 55 million yen

5. Goodwill that has occurred, the reasons for the goodwill and the method and period for amortizing goodwill

(1) Amount of goodwill : 4,599 million yen

(2) Reason for goodwill : Expected excess earnings power after the business combination

(3) Method and period for the amortization : Straight-line method over 5 years

6. Amount and breakdown of assets accepted and liabilities assumed on the date of the business combination

Current assets	358 million yen
Fixed assets	3,164 million yen
Total assets	3,522 million yen
Current liabilities	192 million yen
Long-term liabilities	1,130 million yen
Total liabilities	1,323 million yen

7. Estimated amount of the impact of the business combination on the consolidated statement of income on the assumption that it has been completed on the commencement date of the consolidated fiscal year and its calculation method

Net sales	302 million yen
Operating income	(1,651) million yen
Ordinary income	(1,659) million yen
Net income attributable to owner of the parent	(1,558) million yen

(Calculation method of amount of impact)

The difference between net sales and profits and losses calculated on the assumption that the business combination has been completed on the commencement date of the consolidated fiscal year and net sales and profits and losses on the consolidated statement of income of the acquired business is regarded as the estimated amount of the impact.

Notes to Financial Statements

(NOTES ON IMPORTANT POINTS IN THE PREPARATION OF THE FINANCIAL STATEMENTS)

1. Accounting for evaluation of assets

(1) Securities

(i) Investments in subsidiaries and affiliates ----- Cost basis by moving average method

(ii) Other securities

Available-for-sale with market value:

The securities are stated using the market value method based on the value at the end of the period.
(Valuated differences are recognized in equity directly. Cost of selling is determined by the moving average method.)

Available-for-sale without a market value:

Cost basis by moving average method

(2) Inventories

Finished goods, Raw materials, Supplies ----- Cost basis by moving average method

Unprofitable inventories are devaluated

2. Depreciation and amortization method for fixed assets

Property and equipment (excluding leased assets) ----- Declining-balance method

(except for the facilities attached to buildings and structure acquired on and after April 1, 2016, which is depreciated by straight-line method)

Useful lives of the main property and equipment are as follows:

Buildings:	3 – 24 years
Office furniture and equipment:	3 – 20 years

Intangible fixed assets (excluding leased assets)

<Software for sale>

Straight-line method over the estimated useful lives (12 months).

<Software for internal use>

Straight-line method over the estimated useful lives (mainly 5 years).

<Other intangibles >

Straight-line method over the estimated useful lives

Leased assets

Finance lease without transfer of ownership of the leased assets

Straight-line method in which the useful life is assumed to be the lease period and the residual value is zero.

3. Accounting policies for allowances

Allowance for loss on investments in subsidiaries and affiliates	In order to provide reserves against future loss from investments in subsidiaries, estimated loss from investments in subsidiaries is provided based on an examination of the relevant subsidiary's financial condition and expected recoverability.
Allowance for sales returns	In order to reserve future losses from sales return subsequent to the fiscal year end, allowance for sales return is provided based on the past experience in the sales return.
Allowance for bonuses	Bonuses for employees are provided at an estimate of the amount.
Allowance for retirement benefits	<p>In order to provide for the employees retirement benefits, the Company accrues liability for severance payments and pensions at the amount calculated based on the projected benefit obligations and plan assets as of the fiscal year end.</p> <p>The accounting method of recognizing allowance for retirement benefits and its cost is as follows.</p> <p>(1) Attribution method for retirement benefit estimates</p> <p>In calculating the retirement benefits, the expected retirement benefits are attributed to the periods by standard pension benefit formula basis.</p> <p>(2) Accounting method of actuarial differences and the expense related to prior service cost</p> <p>Actuarial differences are amortized on a straight-line basis in a following fiscal year within the average remaining service period, which is one year, for the employees at the time of recognition.</p> <p>Prior service cost is amortized on a straight-line basis over a period equaling the average remaining service period of employee, which is one year.</p> <p>Accounting method of unrecognized actuarial differences on employee retirement benefits and prior service cost are different from that of the consolidated financial statements.</p>

4. Revenue Recognition Policy

Sales recognition policy for PCS

Post Contract Customer Support Service (PCS) is a software product license agreement that includes end-user support, such as upgrading products and virus pattern files and providing customer service. The company applies the following revenue recognition method for the share of PCS revenue.

PCS revenue is recognized separately from total revenue and is deferred as deferred revenues under current and non-current liabilities based on the contracted period. Deferred revenue is finally recognized as revenue evenly over the contracted period.

5. Consumption tax

Transactions subject to consumption tax is stated at the net amount of the related consumption tax.

6. Amortization of Goodwill

Goodwill is amortized evenly over the appropriate period in less than 20 years.

7. All the amounts shown in yen in this document have been expressed in the unit of one million (1,000,000) yen with any amount less than such unit being disregarded.

(Change in presentation)

(Applying the Partial Amendments to Accounting Standard for Tax Effect Accounting)

In accordance with “Partial Amendments to Accounting Standard for Tax Effect Accounting” (Accounting Standards Board of Japan (ASBJ) Statement No. 28, issued February 16, 2018), the Company has applied “Ministerial Ordinance on Partial Amendments to the Ordinance for Enforcement of the Companies Act and the Ordinance on Company Accounting” (Ministry of Justice Order No. 5 of March 26, 2018) from the current fiscal year. Accordingly, deferred tax assets are presented in investments and other assets and deferred tax liabilities are presented in noncurrent liabilities.

(NOTES TO THE BALANCE SHEET)

The Monetary Claims Against and Obligations Owed to Subsidiaries and Affiliates:

	(Yen in millions)
Short-term monetary assets	3,459
Short-term monetary liabilities	7,037

(NOTES TO THE PROFIT AND LOSS)

The Amounts of Transactions with Subsidiaries and Affiliates

The Amounts of Operational Transactions

	(Yen in millions)
Sales	10
Outside service fee	18,031
Cost sharing charges	5,155
Purchases	633

The Amounts of Non- Operational Transactions

Interest on loans receivable from subsidiaries and affiliates	10
Dividends from subsidiaries and affiliates	9,103

(NOTES TO THE STATEMENTS OF CHANGES IN NET ASSETS)

The Number of Treasury Stock as of the End of the Fiscal Term

Common Stock	1,365,655 shares
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(NOTES TO THE TAX EFFECT ACCOUNTING)

1. Major items causing deferred tax assets:

Deferred tax assets

	(Yen in millions)
Nondeductible deferred revenue	19,189
Nondeductible amortization of intangibles fixed assets	1,206
Nondeductible accrued enterprise tax	367
Nondeductible accrued liability	500
Nondeductible allowance for retirement benefits	1,405
Unrealized gain(loss) on available for sale securities	16
Gain of sales of marketable securities for tax purposes	2,386
Others	747
Deferred tax assets sub total	25,818
Valuation allowance	(142)
Total deferred tax assets	25,676

Deferred tax liabilities

	(Yen in millions)
Unrealized gain(loss) on available for sale securities	(1)
Total deferred tax liabilities	(1)
Net amount of deferred tax asset	25,674

2. Significant component of difference between statutory tax rate and effective tax rate after adjustment for tax effect accounting

Statutory tax rate	30.6%
(Adjustments)	
Nondeductible expense such as entertainment expense	0.8%
Nontaxable income such as dividends income	(9.7)%
Tax credit	(1.6)%
Others	0.6%
Effective tax rate after adjustment for tax effect accounting	20.7%

(NOTES ON RELATED PARTY TRANSACTIONS)

Subsidiaries and Affiliated companies

Company name	Ownership ratio of voting rights	Detail of the relationship	Detail of transactions	Item and Trading amount (Yen in millions)	Account name	Balance at end of period (Yen in millions)
Trend Micro Incorporated (U.S.A.)	100% (Indirect)	Cost sharing agreement	Payments of Cost sharing charges (*1)	8,901	Accounts payable, other	2,304
Trend Micro (Ireland) Limited	100% (Indirect)	Cost sharing agreement	Receipts of Cost sharing charges (*1)	8,817	Accounts receivable, other	2,005
Trend Micro Australia Pty.Ltd.	100% (Indirect)	Cost sharing agreement	Receipts of Cost sharing charges (*1)	5,239	Accounts receivable, other	1,406
Trend Micro Incorporated (Taiwan)	100% (Direct)	Outsourcing agreements of research and technology development and other support services	Payments of Outsourcing charges (*1)	9,512	Accounts payable, other	1,466

(*1) The trading amounts on Cost sharing and outsourcing service agreements are reasonably determined in consideration of the fair transaction prices.

(NOTES ON PER SHARE INFORMATION)

1. The net assets per share: 592.67 yen
2. The net income for the term per share: 172.75 yen

(NOTES ON MATERIAL SUBSEQUENT EVENTS)

N/A

(OTHER NOTES)

N/A